

Government of India
Ministry of Finance
Department of Financial Services

LOK SABHA
Unstarred Question No. †2956
Answered on Monday, March 21, 2022/Phalguna 30, 1943 (Saka)

CO-OPERATIVE BANKS

†2956. SHRI SUKHBIR SINGH JAUNAPURIA:

Will the Minister of FINANCE be pleased to state:

- (a) whether there are many flaws in the operating system of co-operative banks due to which scams are still happening there;
- (b) if so, whether the Government proposes to formulate any new special scheme to strengthen the monitoring mechanism on co-operative banks and if so, the details thereof;
- (c) whether the Reserve Bank of India(RBI) has failed to control the operation and system of co-operative banks, resulting in current scam in PMC Co-operative bank and the customers are facing problems and if so, the details thereof;
- (d) whether the saving of the customers is completely safe in such situation and if so, the details thereof; and
- (e) if not, the details of persons accountable for this?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(DR. BHAGWAT KARAD)

(a) & (b): Reserve Bank of India (RBI) has been regulating the banking related functions of all co-operative banks under the provisions of the Banking Regulation (BR) Act, 1949 [as applicable to Cooperative Societies (AACS)] and other applicable Acts.

Earlier many provisions of the Banking Regulation Act, 1949 relating to the governance and sound regulation and supervision of banks that were applicable to banking companies were not applicable to co-operative banks. Keeping in view developments in the banking sector and the regulation thereof over time, amendments have been made through the Banking Regulation (Amendment) Act, 2020 for extending such provisions to co-operative banks as well. While providing for better management with proper regulations, the Act aim to ensure that the affairs of the cooperative banks are conducted in a manner that protects the interest of depositors by increasing professionalism, enabling access to capital, improving governance and ensuring sound banking through the Reserve Bank of India.

The provisions of the Act have been brought into force for Urban Co-operative Banks (UCBs) and State Cooperative Banks (StCBs)/District Central Cooperative Banks (DCCBs) with effect from 26.06.2020 and 01.04.2021 respectively.

Further, with effect from February 4, 2020, the deposits insurance cover for banks by *Deposit Insurance and Credit Guarantee Corporation (DICGC)* has been increased from Rs. 1 lakh to Rs. 5 lakh with a view to providing a greater measure of protection to depositors

Some of the policy initiatives taken by RBI to check any irregularity and strengthening Cooperative banks are as under:

- The BR Act, 1949 has been amended to provide additional powers to RBI for more effective regulation of co-operative bank. The major amendments pertain to areas such as management, audit, capital, reconstruction/amalgamation, etc. These amendments are expected to go a long way strengthening the governance and regulation of co-operative banks.

- RBI issues instructions, circulars, guidelines and notifications to StCBs, DCCBs and UCBs under the provisions of the BR Act, 1949 [AACS].

- Guidelines have been issued by RBI for StCBs /DCCBs and UCBs on various matters related to capital adequacy, income recognition and provisioning norms, investments, maintenance of deposits, branch expansion of StCBs/DCCBs and UCBs, customer service, etc.

- StCBs/DCCBs are being periodically inspected by NABARD under provisions of Section 35 (6) of the Banking Regulation Act, 1949 (AACS) to ensure that the banks are complying with the extant guidelines/instructions/norms.

- UCBs are being periodically inspected by RBI under provisions of Section 35 of the Banking Regulation Act, 1949 (AACS) to ensure that the banks are complying with the extant guidelines/instructions/norms.

The compliance to RBI guidelines issued to banks is examined on sample basis during the Supervisory Assessment of the banks and any non-compliance observed are taken up with the banks for the rectification apart from initiating supervisory/ enforcement action against the bank, as deemed fit.

(c) to (e): RBI has apprised that in case of detection of deterioration of financials of co-operative bank, it is very prompt in taking corrective measures for improving their financial health viz. imposition of supervisory actions and All-Inclusive Directions including cap on withdrawals, sanctioning/ disbursal of fresh loans with a view to protect the interest of depositors of the bank, Supersession of Board etc.

Further, RBI has reported that once the deterioration in the financial position of Punjab & Maharashtra Cooperative (PMC) bank was detected, it was promptly placed under All Inclusive Directions with effect from September 23, 2019 with a view to preserve the resources of bank and to protect the interest of depositors especially retail. Subsequently, the bank has been merged with Unity Small Finance bank under a Scheme of Amalgamation notified by Government on January 25, 2022 and the highlights of same are given below:

- Under the scheme of amalgamation, despite a deposit erosion of more than 50%, no hair-cut on deposits is being applied for repayment to retail depositors.

- There will be a very early payment to depositors up to the ceiling of insured amount. Depositors are getting Rs. 5 lakh immediately, which would enable more than 95% of depositors to withdraw entire balance in their deposit accounts.

- About 99% of the retail depositors will be paid in full by the end of 5th year.

- Institutional depositors will also not be losing their deposits owing to envisaged conversion of their deposits (above the insured ceiling) into Perpetual Non-Cumulative Preference Shares (PNCPS) /Equity shares.

- Even Tier-2 long term deposit (akin to Tier-2 bonds) holders will not be losing their money which is envisaged to be converted into PNCPS.
